Report

of the

Examination of

Compcare Health Services Insurance Corporation

Milwaukee, Wisconsin

As of December 31, 2000

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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September 14, 2001

Honorable Connie L. O'Connell
Commissioner of Insurance
Madison, Wisconsin

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

COMPCARE HEALTH SERVICES INSURANCE CORPORATION

Milwaukee, WI

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Compcare Health Services Insurance Corporation (Compcare or the company) was conducted in 1998 as of December 31, 1997. The current examination covered the intervening period ending December 31, 2000, and included a review of such 2001 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Provider Contracts
Territory and Plan of Operations
Affiliated Companies
Growth of the HMO
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

Independent actuaries were engaged under a contract with the Office of the Commissioner of Insurance to review loss reserves at December 31, 2000 for claims assumed by the company under a Loss Portfolio Transfer Agreement with Family Health Plan Cooperative. The results of their work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuaries' conclusion.

II. HISTORY AND PLAN OF OPERATION

The company can be described as a for-profit network model health maintenance organization (HMO) insurer. An HMO insurer is defined by s. 609.01 (2), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, comprehensive health care services performed by providers selected by the organization." Under the network model, the HMO provides care through contracts with two or more clinics. HMOs compete with traditional fee-for-service health care delivery.

Compcare was initially operated as a line of business by the corporate predecessors of Blue Cross & Blue Shield United of Wisconsin (BCBSUW). Compcare received its certificate of authority on June 2, 1980, as a nonstock insurer under provisions of ch. 613, Wis. Stat., and the corporation was subsequently dissolved January 1, 1984. The current for-profit, stock company, Compcare Health Services Insurance Corporation, was incorporated January 1, 1984, under the provisions of ch. 611, Wis. Stat., and commenced business on the same date. Compcare was organized with 2,000,000 shares of $1 par value common stock authorized, issued and outstanding.

In preparation for a stock offering of United Wisconsin Services, Inc. (UWSI), an affiliate of Blue Cross & Blue Shield United of Wisconsin (BCBSUW), a corporate restructuring was completed in 1991. As part of this restructuring, BCBSUW contributed Compcare to UWSI. In addition, Dentacare, a dental line of business, was transferred to Compcare from BCBSUW. Effective January 1, 1998, Compcare transferred the Dentacare business to its subsidiary, Heartland Dental Plan, Inc. (“HDP”).

On August 1, 1995, Compcare entered into a contract with Aurora Health Network, Inc., under which Compcare would provide underwriting and Aurora would provide healthcare services pertaining to the Kenosha-area market and employer-members of Kenosha Health Care Partners, Inc.

In 1996, the company entered into partnerships with two healthcare systems, Duluth Clinic and Howard Young Health Care, under a provider agreement and a joint venture agreement, respectively.

During 1999, Compcare was licensed for its commercial lines of business as a Larger Controlled Affiliate Licensee of the BlueCross BlueShield Association. As a result, Compcare is now marketing its commercial products under the trade name of CompcareBlue.

Compcare owns all outstanding stock in Heartland Dental Plan, Inc. a limited health services organization that provides dental health insurance products. During 2000, Compcare received as a capital contribution from Cobalt Corporation, all of the outstanding stock of United Wisconsin Insurance Company ("UWIC"), an underwriter of group disability, workers' compensation and other coverages; United Wisconsin Proservices ("Proservices"), a provider of electronic data submission and other services to health care providers; Meridian Resource Company, LLC ("MRC"), which, provides various investigative and collection services for health care organizations, and; United Heartland Life Insurance Company ("UHLIC"), an underwriter of group life insurance. The equity balances of these companies at the time that they were contributed to Compcare were $51,599,000.

Family Health Plan Cooperative ("FHP"), a Wisconsin health maintenance organization, was ordered to be liquidated by Dane County Circuit Court, State of Wisconsin, on October 16, 2000. FHP was a non-profit, cooperative HMO serving the greater Milwaukee area. Under the liquidation order, polices in force were terminated at the earliest of: November 1, 2000, the date the policy expired, or the date new coverage was obtained by the enrollee. The Liquidation effected an Omnibus Agreement by and among Family Health Plan, Aurora HealthCare (Aurora), United Wisconsin Services, Inc., now known as Cobalt, and Family Health Systems, Inc. The following provisions of the Omnibus Agreement approved by the Court and the Liquidator proceeded to:

- Transfer the assets of Family Health Plan to Aurora and/or Cobalt as set forth in the agreement
- Transfer of certain liabilities to Aurora and Cobalt
- Retention by the Liquidation of certain designated excluded liabilities

Compcare entered into a 100% quota share reinsurance agreement with Family Health Services under which Compcare assumed 100% of FHP's outstanding liability for claims incurred prior to the liquidation date. Compcare received assets from FHP as consideration for assuming the liabilities. In addition, Compcare offered coverage to FHP enrollees at rates then being offered to Compcare enrollees for similar coverages. This agreement is outlined in the reinsurance section of the report.

Compcare is included under two BCBSUW agreements with providers of information systems services. The first, initially entered into in 1983, is with EDS Federal Corporation. Under current provisions of this agreement, EDS provides systems pertaining to membership services and broker applications, as well as a print disaster recovery site. The second agreement is with Blue Cross & Blue Shield of South Carolina, executed in late 1996, and makes provision for a full range of information systems services, including claims and provider information management. Base compensation is determined on a per-member-per-month basis. A review of these systems was completed during the examination.

Compcare contracts with independent practice associations (IPAs), clinics, integrated delivery systems (hospital/physician joint ventures or PHOs) and individual physicians for the provision of enrollees' covered services. The number of contracting primary care providers (PCPs), specialists, and hospitals breaks down as follows:

77 hospitals at 77 locations
2,226 PCPs at 537 locations
4,268 specialists at 926 locations

The enrollee is required to choose a clinic or independent practice association (IPA) and a primary care physician, from the selected clinic or IPA, who serves as a "gatekeeper." Referrals are required to be preauthorized by the PCP, with the exception of female enrollees being permitted to "self-refer" to an affiliated OB/GYN for routine women's health services.

The contracts include hold-harmless provisions for the protection of policyholders. Physicians are reimbursed on a capitation or discounted fee-for-service basis. In some cases, the company uses a "target" system of payment, under which a portion of the reimbursement is withheld pending an evaluation of the provider's experience for the year. Based on whether the target is met, additional payments may be made to the provider or the company may retain all or part of the amount. Some of the contracts provide that a reimbursement bonus be paid should the provider's experience fall below a predetermined cost target. Contracts typically have a one-year term and automatically renew for additional one-year terms. In general, either party prior to the end of a term may terminate contracts, without cause, with 120 days' written notice. Several of the large physician-hospital organizations (PHOs) have signed multi-year agreements.

Compcare contracts with 77 hospitals to provide inpatient services. Hospitals are reimbursed on a negotiated DRG or per diem, or discount from billed charges basis. The contracts include hold-harmless provisions for the protection of policyholders.

According to its business plan, Compcare's service area is comprised of the following counties:

Ashland	Barron	Bayfield	Brown
Burnett	Clark	Douglas	Florence
Forest	Iron	Kenosha	Langlade
Lincoln	Manitowoc	Marathon	Marinette
Menominee	Milwaukee	Oconto	Oneida
Ozaukee	Pepin	Pierce	Polk
Portage	Price	Racine	Rock
Rusk	St. Croix	Sawyer	Shawano
Sheboygan	Taylor	Vilas	Walworth
Washburn	Washington	Waukesha	Waupaca
Wood			

The company offers comprehensive health care coverage, which may be changed by riders to include deductibles and copayments. The following basic health care coverages are provided:

- Physician services
- Outpatient services
- Ambulance services
- Prosthetic devices and durable medical equipment
- Home health care
- Family planning
- Routine eye examinations
- Prescription drugs—copayments vary by plan
- Physical fitness or health education
- Chiropractic services
- Inpatient services
- Mental health, drug, and alcohol abuse services
- Special dental procedures (oral surgery)
- Newborn services
- Preventive health services
- Hearing exams
- Convalescent nursing home service
- Cardiac rehabilitation, physical, speech, and/or occupational therapy
- Certain transplants

Inpatient mental health and AODA coverage is limited to the lesser of 30 days and $6,300.00; outpatient mental health and AODA coverage is limited to $1,800 per year. Transitional care coverage is limited to $2,700 per year. Mental health and AODA coverage is limited to a combined maximum of $6,300 per year. Skilled nursing home care is generally limited to 30 days following a hospital stay. Plan coverage is contingent on nonemergency services being provided by participating physicians and hospitals or on the referral of participating physicians. The company also has a number of copayment plans in which certain inpatient and physician services are subject to various levels of copayments. In southeastern Wisconsin, the company also offers a limited network of providers for employers willing to have a lesser network for a lower premium.

In addition to its HMO products, Compcare also offers point-of-service (POS) products. The indemnity portion of Compcare's POS products is underwritten by United Wisconsin Insurance Company. POS products provide comprehensive benefits similar to those listed above when participating providers are used. The enrollee may elect, at the time of service, to use providers that are not part of the company's network for higher deductibles and coinsurance levels. Certain preventive services are not covered when out-of-network providers are used. Non-emergency out-of-network inpatient and outpatient hospital services require precertification. Reimbursement for these services will be reduced by $500 per occurrence as a penalty for failing to precertify.

The company also participates in offering a 24-hour product, "United 24." United 24, marketed as a product of United Wisconsin Services, Inc., now known as Cobalt, is described as integrating health, worker's compensation, and disability coverages. Compcare typically underwrites and administers the medical portion of the coverage.

Compcare is included under a contract in which Cobalt, has contracted with Wellpoint Pharmacy Management, Inc. to be its exclusive drug claim processor. Under the contract, effective June 1, 2000, Wellpoint is authorized to process drug claims, issue checks, implement formularies, and perform drug utilization review activities. Cobalt is responsible for providing membership and plan data and crediting Wellpoint's account for authorized payments twice a month.

The company currently markets to groups only. The company uses both internal sales staff and outside agencies. Agents are paid a commission on new and renewal business, according to the following schedule:

Contracts	Per Contract Per Month
First 10 contracts	$20
Next 10 contracts	12
Next 20 contracts	6
Next 100 contracts	4
All additional contracts	2

Compcare uses an actuarially determined base as a beginning point in premium determination. An actuarially review of the rates is performed at least semiannually and rates are adjusted for inflation. Rates are adjusted to reflect the age, sex, area (county) and plan of benefits for new groups. Experience is reviewed for renewal groups and, based on the review, a recommendation is made regarding adjusting the rate or canceling the group. Underwriters have the authority to adjust the rates after the initial rate quote.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members at the time of the examination. The number of directors are determined at each annual meeting. Directors are elected annually to serve a one-year term. Officers are elected by the board of directors. Members of the company's board of directors may also be members of other boards or directors in the holding company. The board members do not receive compensation for serving on the board for Compcare.

The board of directors at the time of examination fieldwork consisted of the following persons:

Name and Residence	Principal Occupation	Term Expires
Thomas R. Hefty Elm Grove, WI	Chairman and CEO, Blue Cross & Blue Shield United of Wisconsin	2002
Gail L. Hanson Delafield, WI	Vice President and Treasurer, Compcare	2002
Penny J. Siewert Eagle, WI	Vice President, Compcare	2002
James E. Hartert Waukesha, WI	President & COO, Innovative Resource Group	2002
Michael E. Bernstein Whitefish Bay, WI	President, Compcare	2002

Officers of the Company

The officers elected or appointed by the board of directors and serving at the examination date are as follows:

Name	Office	2000 Salary
Michael E. Bernstein	President	$249,679*
Kathryn Potos	Secretary, Vice President	**
Gail L. Hanson	Chief Financial Officer, Vice President	265,136*
Penny J. Siewert	Vice President	270,455*
James E. Hartert	Vice President	267,767*

* Compensation includes amounts allocated by affiliates.
** Newly elected in 2001, no 2000 salary

Committees of the Board

Compcare's bylaws allow for the formation of certain committees by the board of directors. There were no committees at the time of the examination.

Personnel

Compcare has its own employees, approximately 327; and additional staff support is provided through a services agreement between Cobalt and Blue Cross Blue Shield United of Wisconsin. The BCBSUW agreement dated January 1, 1998, provides for services such as actuarial and human resources, areas in which duplication would not be cost effective. The agreement is further described in the section of this report captioned “Affiliated Companies.”

Financial Requirements

The financial requirements for an HMO under s. Ins 9.04, Wis. Adm. Code, are as follows:

		Amount Required
1.	Minimum capital or permanent surplus	Either: $750,000, if organized on or after July 1, 1989 or $200,000, if organized prior to July 1, 1989
2.	Compulsory surplus	The greater of $750,000 or: If the percentage of covered liabilities to total liabilities is less than 90%, 6% of the premium earned in the previous 12 months; If the percentage of covered liabilities to total liabilities is at least 90%, 3% of the premium earned in the previous 12 months
3.	Security surplus	The greater of: 140% of compulsory surplus reduced by 1% of compulsory surplus for each $33 million of additional premiums earned in excess of $10 million or 110% of compulsory surplus
4.	Operating funds	Funds sufficient to finance any operating deficits in the business and to prevent impairment of the insurer's initial capital or permanent surplus or its compulsory surplus

Covered liabilities are those due to providers who are subject to statutory hold-harmless provisions.

In addition, there is a special deposit requirement equal to the lesser of the following:

1. An amount necessary to maintain a deposit equaling 1% of premium written in this state in the preceding calendar year;

2. One-third of 1% of premium written in this state in the preceding calendar year.

The company has satisfied this requirement for 2000 with a deposit of $2,850,000 with the State Treasurer.

Insolvency Protection for Policyholders

Under s. Ins 9.04, Wis. Adm. Code, HMOs are required to provide continuation of coverage for its enrollees. These requirements are the following:

1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and

2. Enrollees will be entitled to similar, alternate coverage, which does not contain any medical underwriting, or preexisting limitation requirements.

In the event that a court or governmental agency having jurisdiction determines Compcare to be insolvent, Cobalt, has agreed to contribute financial resources or guarantees secured by adequate financial resources sufficient to satisfy said court or agency of the continuing or renewed solvency of Compcare. This agreement is effective January 1, 1992, and will continue in effect until either party gives written notice to terminate six months prior to a termination.

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is Cobalt Corporation. Below is a brief description of the significant affiliates of Compcare. The organizational chart, which depicts the relationships among the affiliates in the group, as of March 31, 2001, follows the descriptions.

Cobalt Corporation

Cobalt Corporation (Cobalt), formerly known as United Wisconsin Services, Inc.(UWSI), operates as an insurance holding company for the group. UWSI was incorporated in 1998 and organized pursuant to ch. 180, Wis. Stat. UWSI was publicly traded over the New York Stock Exchange under the symbol UWZ until March of 2001. Effective March 23, 2001, UWSI changed its name to Cobalt Corporation upon completion of the conversion of Blue Cross & Blue Shield United of Wisconsin (BCBSUW) and the combination of BCBSUW and UWSI. Currently, Cobalt is traded on the New York Stock Exchange under the symbol CBZ.

Subsequent to the conversion and combination, the majority of Cobalt's common stock is owned by the Wisconsin United for Health Foundation (the foundation). The foundation's ownership percentage is dependent on whether the 16.4% of Cobalt common stock owned by BCBSUW is treated as treasury stock or not. If BCBSUW owned Cobalt stock it is considered treasury stock the foundation owns 77.5% of Cobalt. See the organizational chart, following this section for more detail.

The December 31, 2000 audited consolidated financial statements for UWSI reported assets of $366 million, liabilities of $349 million, and shareholders' equity of $17 million. Operations for 2000 produced net losses of $16 million on revenues of $761 million.

Blue Cross & Blue Shield United of Wisconsin

Blue Cross & Blue Shield United of Wisconsin (BCBSUW) was a nonstock, service insurance corporation, incorporated in 1939, and organized pursuant to ch. 613, Wis. Stat. In June 1999, the BCBSUW Board of Directors announced its intention to convert BCBSUW from a nonprofit service insurance corporation to a stock corporation. An application for a Plan of Conversion was filed with the commissioner on June 14, 1999. On March 28, 2000, Commissioner O'Connell approved a plan of conversion subject to a detailed list of conditions. On March 19, 2001, the Commissioner recognized BCBSUW's application as complete and the conversion under the order of March 28, 2000 was approved. Effective March 23, 2001, BCBSUW converted to stock insurance corporation and organized pursuant to ch. 611, Wis. Stat. In addition to the conversion, BCBSUW became a wholly owned subsidiary of Cobalt through a combination of BCBSUW and Cobalt on March 23, 2001.

As of December 31, 2000, BCBSUW's statutory financial statements reported assets of $259 million, liabilities of $155 million, and unassigned funds of $104 million. Operations for 2000 produced a net loss of $28 million on revenues of $534 million.

Wisconsin United for Health Foundation, Inc.

Wisconsin United for Health Foundation, Inc. (the foundation) is a non-stock organization organized pursuant to Ch. 181, Wisconsin Statutes. It was created as part of the transaction under which BCBSUW was converted from a non-stock, non-profit organization to a for-profit stock company. The foundation was established for the purpose of benefiting public health initiatives developed by the University of Wisconsin Medical School and the Medical College of Wisconsin. Under a divestiture agreement, the foundation is required to sell down its holdings in Cobalt to less than 20% within five years and to contribute the proceeds from the sale to the University of Wisconsin Medical School and the Medical College of Wisconsin. The foundation was unfunded as of December 31, 2000.

United Heartland Life Insurance Company

United Heartland Life Insurance Company (UHLIC) is a stock insurance company, incorporated on August 23, 1990 and organized pursuant to ch. 611, Wis. Stat. UHLIC is a wholly owned subsidiary of Compcare and provides group term life, individual whole life, and group accidental death and dismemberment coverages. As of December 31, 2000, the company's statutory annual statement reported assets of $20.5 million, liabilities of $11 million, and surplus of $9.5 million. Operations for 2000 produced a net income of $1.6 million on revenues of $28 million.

United Wisconsin Insurance Company

United Wisconsin Insurance Company (UWIC) is a Wisconsin stock insurance corporation, incorporated in 1957, and organized pursuant to ch. 611, Wis. Stat. UWIC, a wholly owned subsidiary of Compcare, has established, maintained, and operated accident, sickness, long-term disability, and other health care insurance plans. As of December 31, 2000, UHLIC's statutory annual statement reported assets of $21 million, liabilities of $11 million, and surplus of $10 million. Operations for 2000 produced a net loss of $2 million on revenues of $70 million.

Heartland Dental Plan

Heartland Dental Plan (HDP) was incorporated in 1997 and organized pursuant to ch. 611 of the Wis. Stats. HDP, a wholly owned subsidiary of Compcare was established to operate dental services, which were previously operated as a line of business of Compcare. HDP contracts with group dental practices primarily on a capitated basis. As of December 31, 2000, HDP's statutory annual statement reported assets of $6 million, liabilities of $2.2 million, and capital and surplus of $3.8 million. Operations for 2000 produced a net income of $1.7 million on revenues of $32.7 million.

United Wisconsin Proservices

United Wisconsin Proservices (Proservices) is a wholly owned subsidiary of Compcare. Proservices develops, services and installs software, which allows health care providers and payers to transmit electronic claims, and provides real time access to patient and claim status. Proservices offers this electronic data interchange service to health care providers via their Proservices Health Information Network (PHIN). As of December 31, 2000, Proservices GAAP audited balance sheet reported assets of $3.9 million, liabilities of $1 million and equity of $2.9 million. The unaudited income statement reflected net income of $1.2 million on revenues of $4.5 million.

Meridian Resource Corporation

Meridian Resource Corporation (MRC) is a wholly owned subsidiary of Compcare. The company is a diversified health care cost containment consulting and auditing firm. Services provided include audit services, and investigation and recovery services. As of December 31, 2000, MRC's GAAP audited balance sheet reported assets of $4.5 million, liabilities of $600 thousand, and surplus of $3.9 million. The unaudited income statement reflected net income of $0.9 million on revenues of $9.1 million.

Affiliated Agreements and Guarantees

Compcare Health Services Insurance Corporation has entered into numerous affiliated agreements. Some of the most significant contracts are described below.

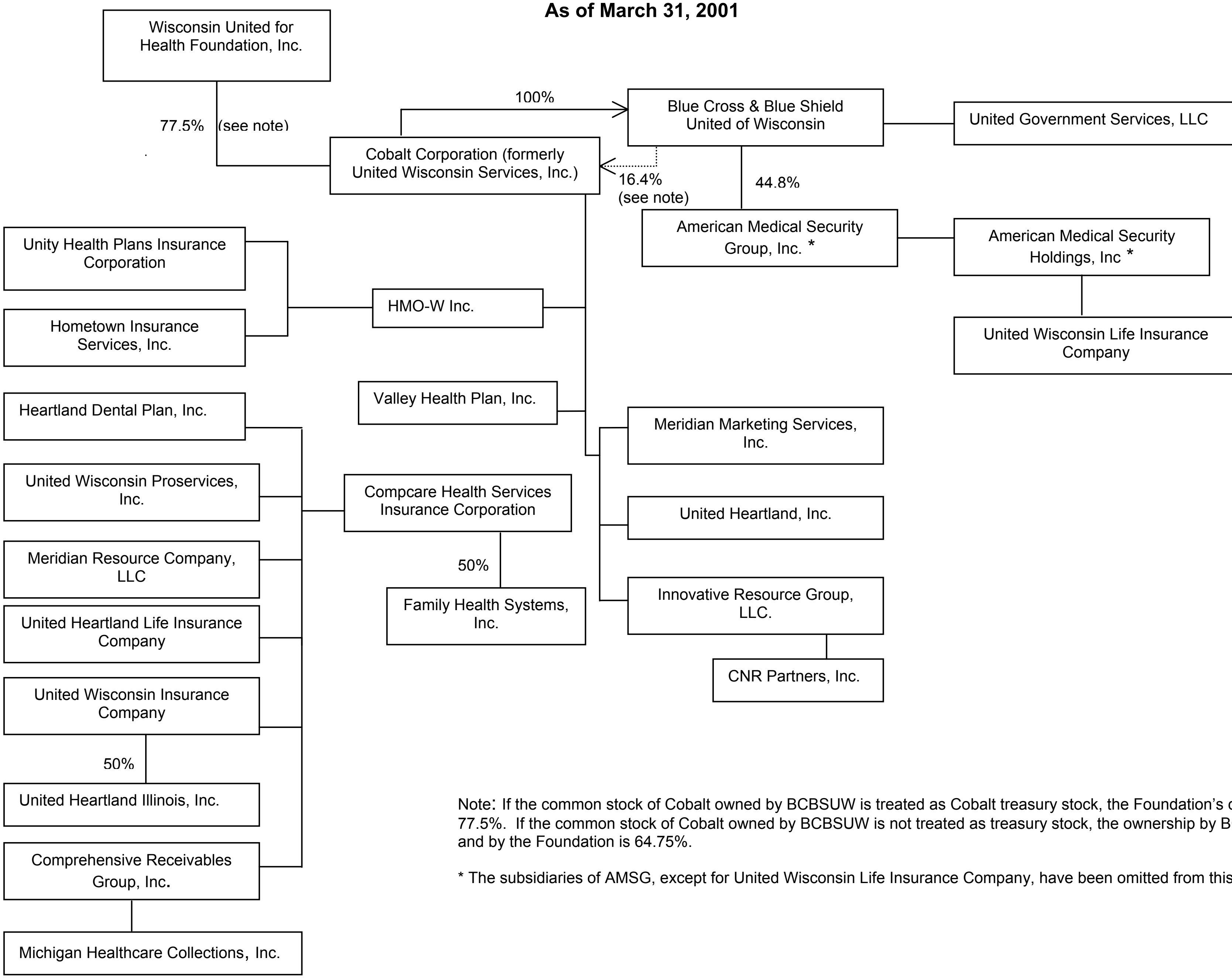
- Compcare has entered into a service agreement in with Meridian Managed Care (MMC), BCBSUW, and UWSI. Pursuant to this agreement MMC provides employees to Compcare, BCBSUW provides office space, building services, office services central systems, administrative services, sales and marketing services, finance and underwriting services, management services and company car and travel to Compcare, and Cobalt provides corporate support services, executive services, marketing and communication, human resources, financial services, and actuarial and underwriting service to Compcare. In return Compcare shall provide to BCBSUW/Cobalt Group to the extent requested by each company quality improvement services, network management services, provider contracting, accounting and sales. These services are provided on a cost allocation method.

- Compcare has entered into two administrative service contracts with UWIC for its underwriting of Out-of-Area Products and the indemnity portion of the Compcare Point-of-Service Plan. There is also a reinsurance agreement related to the point-of-service products with UWIC, which will be discussed further in the reinsurance section of the report.

- Compcare has also entered into agreements with MRC for collection services, investigative services and subrogation and workers' compensation claim recovery services. Compcare has entered into other services agreements for utilization Management, commissions and licensing, its pharmacy unit, ACG Case mix, hospital bill audit, pharmaceutical rebate management and ancillary services with other affiliates.

- Under the membership rules of the BlueCross BlueShield Association (BCBSA), the primary licensee, Cobalt is required to enter into indemnification or guarantee agreements on behalf of its licensed affiliates. Compcare has entered into such an agreement Cobalt dated as of March 23, 2001. Previous to this the indemnification agreement was with BCBSUW.

Organizational Chart
As of March 31, 2001



Note: If the common stock of Cobalt owned by BCBSUW is treated as Cobalt treasury stock, the Foundation's control percentage is 77.5%. If the common stock of Cobalt owned by BCBSUW is not treated as treasury stock, the ownership by BCBSUW is 16.44% and by the Foundation is 64.75%.

* The subsidiaries of AMSG, except for United Wisconsin Life Insurance Company, have been omitted from this chart.

V. REINSURANCE AND CORPORATE INSURANCE

At the date of the examination the company had reinsurance coverage under the contracts outlined below:

Affiliated Assuming Contract

1.	Type:	100% Quota share
	Reinsured:	Family Health Plan Cooperative (FHP)
	Scope:	Pursuant to the Omnibus Agreement, Compcare is to assume from FHP all obligations, other than the obligation to pay Excluded losses, under insurance policies issued by the company. Compcare will also administer the reinsured claims.
	Coverage:	Compcare assumes 100% of all liability on policies issued before the effective date and all other liabilities, such as premium taxes, any liability in connection with participation by FHP, commissions and other policy issuing cost and returns and refunds of premium.
	Premium:	FHP transfers to Compcare specific investments and assets outlined in the agreement. As part of premium paid by FHP to Compcare, FHP assigns, transfers and conveys without recourse, FHP's right, title and interest in the premiums owed on the policies.
	Effective Date:	November 1, 2000

Effective January 1, 2001, this office did not disapprove an assumption agreement which would return Heartland Dental Plan, Inc. as an operating line of business of Compcare, resulting in the transfer of over 176,000 enrollees to Compcare. This assumption replaced a 100% quota share agreement in effect between HDP and Compcare. This assumption agreement is dated July 1, 2001.

Affiliated Ceding Contract

1.	Reinsurer:	United Wisconsin Insurance Company
	Type:	Excess of Loss Reinsurance
	Effective date:	October 1, 2000
	Retention:	All claims contributing to a maximum 99.5% loss ratio
	Coverage:	Claims liability in excess of a 99.5% loss ratio
	Premium:	0.25% of net earned premium on HMO coverage portion of point-of-service plan.
	Termination:	By either party as of the end of any month upon 90 days prior written notice

In addition, the company is provided with corporate insurance coverages as a named insured on BCBSUW/Cobalt policies as listed below:

Type of Coverage	**Policy Limits**
Workers' Compensation	Statutory
Property, Boiler & Machinery/Extra Expense	$70,000,000
General Liability	1,000,000
Automobile	1,000,000
Umbrella	35,000,000
Aircraft Liability	50,000,000
Managed Health Care Liability	10,000,000
Directors' and officers' liability	40,000,000
Fiduciary Liability	15,000,000
Financial Institution Bond	2,500,000
Travel Accident	Various

The above coverages were obtained through various insurers, which are licensed in Wisconsin, or on the Commissioner's current list of approved surplus lines insurers.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2000, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company for the period under examination. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Net Worth per Examination."

Compcare Health Service Insurance Corporation
Assets
As of December 31, 2000

Current Assets:		
Cash	$ (4,368,273)	
Short-term investments	22,539,121	
Premiums receivable—net	16,154,254	
Investment income receivable	274,023	
Health care receivables	3,405,249	
Reinsurance recoverable on paid losses	100,000	
Prepaid Expenses	1,181,611	
Other Miscellaneous Receivables	49,043	
Amounts Due from Self-Insured Plans	85,632	
Total current assets		$ 39,420,660
Other Assets:		
Bonds	21,232,549	
Common stocks	59,440,043	
Deferred Income Taxes	15,822,178	
Goodwill	3,625,942	
Total other assets		100,120,712
Property and Equipment—Net:		
Furniture and equipment	761,245	
Leasehold improvements	119,685	
EDP equipment	2,661,882	
Total property and equipment		3,542,812
Total Assets		$143,084,184

Compcare Health Services Insurance Corporation
Liabilities and Net Worth
As of December 31, 2000

Current Liabilities:		
Accounts payable	$ 4,578,771	
Claims payable (reported and unreported)	65,465,863	
Accrued medical incentive pool	1,025,071	
Unearned premiums	15,868,114	
Loans and notes payable	3,390,000	
Amounts due to affiliates	2,735,382	
Accrued Interest Payable – Short Term Borrowing	3,710	
Income Tax Payable	25	
Total current liabilities		$ 93,066,936
Other Liabilities:		
Accrued Retiree Benefits	855,536	
Miscellaneous Payables	226,687	
Total other liabilities		1,082,223
Total Liabilities		94,149,159
Net Worth:		
Common stock	2,000,000	
Paid-in surplus	64,475,949	
Retained earnings/fund balance	(17,540,924)	
Total net worth		48,935,025
Total Liabilities and Net Worth		$143,084,184

Compcare Health Services Insurance Corporation
Statement of Revenue and Expenses
For the Year 2000

Revenues		
Premium	$387,092,525	
Net investment income	4,739,870	
Miscellaneous Income	46,681	
Total revenue		$391,879,076
Medical and Hospital Expenses		
Physician services	196,419,702	
Other professional services	19,808,563	
Emergency room, out-of-area	2,675,972	
Inpatient	93,221,852	
Incentive pool and withhold adjustments	(2,177,560)	
Occupancy, depreciation, and amortization	109,342	
Pharmacy Expenses	59,197,700	
Subtotal		369,255,571
Less:		
Net reinsurance recoveries incurred	(127,046)	
COB and subrogation	516,213	
Subtotal	389,167	
Total medical and hospital		368,866,404
Administrative Expenses		
Administrative expenses		40,815,037
Total expenses		409,681,441
Income/(loss)		(17,802,365)
Provision for federal income taxes		(7,571,053)
Net Income/(Loss)		$(10,231,312)

Compcare Health Service Insurance Corporation
Statement of Net Worth
As of December 31, 2000

Net worth, beginning of year	$12,508,458
Increase (decrease) in paid-in surplus	52,005,259
Net income (loss)	(10,231,312)
Decrease (increase) in nonadmitted assets	(7,161,874)
Unrealized Capital Gains and Losses	1,814,494
Net worth, end of year	$48,935,025

Compcare Health Services Insurance Corporation
Statement of Cash Flows (Indirect Method)
As of December 31, 2000

Cash Flows From Operating Activities		
Net income (loss)		$(10,231,312)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization		681,714
Change in operating assets and liabilities:		
(Increase)/Decrease in operating assets:		
Premium receivable		(8,383,965)
Health care receivable		11,171,342
Write-ins for (increase)/decrease in operating assets:		
(Increase) Decrease in Prepaids		(150,560)
(Increase) Decrease in Prepaid Income Taxes		362,698
(Increase) Decrease in Other Miscellaneous Receivables		47,817
Realized Gain/Loss on Sales of Investments		268,988
Reinsurance Recoverable on Paid Losses		306,267
Increase in Goodwill		(10,970,660)
Increase/(Decrease) in operating liabilities:		
Medical claims payable		28,849,285
Due to affiliates		(3,118,006)
Unearned premiums		1,792,746
Accounts payable		2,308,810
Accrued medical incentive pool		(719,410)
Write-ins for (increase)/decrease in operating liabilities:		
Increase (Decrease) in Accrued Retiree Benefits		370,584
Increase (Decrease) in Deferred Income Taxes		(6,895,198)
Increase (Decrease) in Other Miscellaneous Payables		230,397
Net cash provided from (used by) operating activities		$5,921,537
Cash Flows From Investing Activities		
Receipts from investments	$ 249,702,465	
Payments for investments	(257,433,496)	
Payments for property, plant, and equipment	(2,784,526)	
Net cash provided from (used by) investing activities		(10,515,557)
Cash Flows From Financing Activities		
Proceeds from paid in capital or stock issuance	406,068	
Loan proceeds from nonaffiliates	64,295,000	
Principal payments on loans from non-affiliates	(60,905,000)	
Net cash provided from (used for) financing activities		3,796,068
Net increase (decrease) in cash and cash equivalents		(797,952)
Cash and cash equivalents at beginning of year		(3,570,321)
Cash and Cash Equivalents at End of Year		$ (4,368,273)

Growth of Compcare Health Service Insurance Corporation

Year	Assets	Liabilities	Net Worth	Premium Earned	Medical Expenses Incurred	Net Income
2000	$143,084,184	$ 94,149,159	$48,935,025	$387,092,525	$368,866,404	$(10,231,312)
1999	73,553,186	61,044,728	12,508,458	326,332,608	333,531,178	(24,256,367)
1998	97,180,757	60,720,232	36,460,525	303,386,089	267,324,363	6,969,508

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length Of Stay
2000	223,634	309.81	4.5 days
1999	181,512	312.55	3.9 days
1998	171,215	285.11	3.3 days

Per Member Per Month Information

	2000	1999	Percentage Change
Premiums:			
Commercial	180.88	163.94	10.3%
Medicaid	130.59	126.47	3.3
Expenses:			
Physicians services	90.53	83.42	8.5
Other professional	9.13	8.15	12.0
Emergency room, out-of-area, etc.	1.23	0.84	4.6
Occupancy, depreciation	0.05	0.05	No change
Inpatient	42.97	46.11	(6.8)
Reinsurance expenses	0.06	-0.24	(125.0)
Incentive pool adjustment	-1.00	-0.58	72.4
Pharmacy Expenses	27.28	22.89	19.2
COB and Subrogation	-0.24	-0.02	1100.0
Total Medical	170.01	160.62	5.8
Administrative Expense	18.81	16.82	11.8
Total Expenses	188.82	177.44	6.4

The company experienced significant losses in 2000 and 1999. The 1999 losses are partially a result of significant underwriting losses in the Medicaid program. On April 1, 2000 the company terminated this contract. The company's experience improved in 2000 as the loss ratio decreased from 102.2% in 1999 to 95.3%. The company attributes this improvement to premium rate increases and positive reserve development. Due to the significant losses, the examiner requested copies of the company's rate setting procedures for their products. The examiner was informed that the company is no longer using the rate model that was in place at the time of the last examination. In addition, the company was unable to produce documented rate setting procedures. This will be discussed further in the section captioned "Summary of Examination Results".

Although the company experienced a second year of significant losses the company's surplus increased 291% due to the transfer of the equity balances of United Wisconsin Proservices, Inc., Meridian Resource Company, LLC, United Wisconsin Insurance Company and United Heartland Life Insurance Company from Cobalt to Compcare. These equity balances were contributed in order for Compcare to comply with compulsory and security surplus requirements.

The company's operations were affected during 1998 when Compcare and BCBSUW undertook a claims processing system conversion that did not go as smoothly as planned. It resulted in a significant backlog of unprocessed claims starting in 1998 and continuing through 1999. One of the consequences of the system conversion problems was that management did not have access to the trend information necessary to make adequate pricing decisions.

Reconciliation of Net Worth per Examination

The examination made no adjustments to the companys' reported capital and surplus at December 31, 2000.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were fifteen specific comments and recommendations in the previous examination report, of which ten pertained to market regulation issues. The current examination did not include a compliance review for the market regulation recommendations. The five financial comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Investments—It is recommended that the HMO have its custodial agreement amended to include the necessary language.

   Action—Compliance

2. Investments—It is recommended that the HMO properly report short-and long-term investments in future statutory financial statements, as required by the annual statement instructions.

   Action—Compliance

3. Healthcare Receivables—It is recommended that the company properly report healthcare receivables according to the NAIC *Annual Statement Instructions—Health Maintenance Organizations.*

   Action—Compliance

4. Notes to Financial Statements—Since, during the course of examination fieldwork, examiners were provided with copies of amended annual statement pages the HMO was filing with the NAIC, a recommendation is not being made.

   Action—No action necessary

5. Annual Statement Schedules—In both instances, the company determined that the data had not been correctly reported originally and filed amended pages. As these amendments were made during the course of examination fieldwork, a recommendation is not being proposed.

   Action—No action necessary

Summary of Current Examination Results

Executive Compensation

The examination review of the Report on Executive Compensation (Form OCI-040) for 2000 noted that the form is not being completed correctly. For example, the company is required to list any officer or employee whose total annual compensation is in excess of $80,000. It was noted that one officer was not included in this report and should have been. It is recommended that the company complete the Report on Executive Compensation (Form OCI-040) in accordance with its instructions.

The review of the compensation amounts being reported indicated that amounts contributed by the company in connection with the employee's 401K benefit were not included on Form OCI-040. It is recommended that the company properly include all compensation amounts when completing the Report on Executive Compensation (Form OCI-040).

Corporate Records

The examination noted that the company had difficulties locating current signed corporate contracts, particularly affiliated agreements. The review entailed verifying what the company reported on Form B of the 2000 Holding Company Report to the agreements originally provided to the examiners upon a request for all affiliated agreements. In several instances the contracts were either not signed, did not contain the current cost allocation schedules, were not included on Form B, were terminated, or a combination of these problems. Eventually all the contracts were provided and all were properly signed. However, the company was not able to locate a few of the current cost allocation schedules. Similar problems were noted with the reinsurance contracts; such as locating signed copies and determining if the contract was active or not. It is recommended that the company maintain a glossary of corporate contracts, pursuant to s. 601.42 Wis. Stat. The glossary should include all affiliated agreements and reinsurance contracts without exception and be updated on a periodic basis so that the information will be current. A corporate contract glossary will aid the company with the completion of the annual holding company filings and ensure that all contracts are being properly reported.

Accounts and Records

During the review of the company's policy files it was noted that the only way the company could gather information on the policy application was if an Internal Control Number (ICN) could be located on the company's system. In the sample the examiner selected there were instances where the ICN could not be found, therefore no policy application could be provided to the examiner. For the policies where the ICN was found the examiner could obtain the policy applications on the system, but the company had to print out every item batched on the company's imaging system, which could be hundreds of pages. The imaging system does not allow a user to view a single item in a batch making the process cumbersome.

Without the Internal Control Number it is almost impossible to locate the policy detail needed to complete the required audit procedures. It is recommended that the company maintain policy files in accordance with s. Ins. 6.80(4), Wis. Adm. Code in order to provide a clean audit trail.

Financial Reporting

The company had inadvertently excluded the Family Health Plan acquisition from the Notes to Financial Statements. This acquisition was a major change in operations and should have been noted in the annual statement. It is recommended that the company complete the Notes to the Financial Statements in accordance with the NAIC Annual Statement Instructions.

The examination noted errors in some of the company's annual statement schedules.

- The Family Health Plan assumption reinsurance contract was not included on the company's Schedule S. This reinsurance contract was in force at year-end and should have been included.
- The company did not individually list health care receivables amount over 10% of admitted assets on Schedule G-1.

It is recommended the company complete all schedules in the annual statement in accordance with the NAIC Annual Statement Instructions.

Business Plan

During the examination period the company switched from capitated contractual arrangements to fee-for-service. This change in provider agreements is considered to be a change in business plan pursuant to s. Ins. 9.06, Wis. Adm. Code, which states that "the insurer may not enter into any transaction, contract, amendment to a transaction or contract or take action to make any omission that is a substantial change in the insurer' s business plan prior to the effective date of the change or if the change is disapproved."

A letter received from the company's legal department noted that this change was not perceived as a "substantial change" in Compcare's current business plan to warrant the filing pursuant to s. Ins. 9.06, Wis. Adm. Code. Further, it states that it was not considered a substantial change under s. Ins. 9.06(1), Wis. Adm. Code, because the "new provider contract arrangement did not alter Compcare's articles or bylaws, did not change its organizational type or geographical area, did not limit provider availability, and did not affect plan administration, financial projections, or guarantees. In addition, the change at the time was not presumed to have an effect on the financial solvency of the plan."

Section Ins. 9.06, Wis. Adm. Code reads that "substantial changes include changes in articles and bylaws, organization type, geographical service areas, **provider agreements** (emphasis added), provider availability, plan administration, financial projections and guarantees and any other changes that might affect the financial solvency of the plan." The letter received as documentation from the company's legal department addresses each issue in the above referenced code except that of provider agreements.

Since the contractual arrangements affected Compcare's provider agreements, a change of business plan should have been filed with the OCI, pursuant to s. Ins. 9.06, Wis. Adm. Code. It is recommended that the company file a change in business plan within fifteen days upon adoption of this report pursuant to s. Ins. 9.06, Wis. Adm. Code. Further, it is recommended that the company comply with change in business plan filings in the future.

Underwriting

During the course of fieldwork, the examiner requested the company's model for determining rates for its products. The examiner was provided with a one-page document that did not provide sufficient detail as to the pricing of the company's products. The document which was provided was a rate sufficiency model, however did not provide detail on how rates are determined. When further detail was requested company personnel informed the examiner that

Compcare was no longer using the rate model that was in place at the time of the last examination. The company was then asked to produce documentation of their rate setting procedures. Although no documentation was produced, management stated that approximately 85% of renewal business was "experience rated" which established rates based on the actual loss experience of the group. However, there were errors in the claims data being used to set these rates. Rate modeling is an important aspect of pricing a company's product, however any rate model would be inadequate if the claims data used is inaccurate.

It is important that the company establish written procedures for calculating new and renewal rates for group. These procedures should include steps for verifying the integrity of data used in the process. The significant losses that Compcare has experienced in the last couple of years exhibit a need for the company to ensure their products are adequately priced. It is recommended that the company establish and maintain formal written procedures for calculating its premium rates to ensure their products are adequately priced.

Investments

The company reported the number of shares of UWIC stock on the Annual Statement and to the Securities Valuation Office (SVO) to be 150,000 shares. Review of the stock certificate and discussion with company personnel verified the company had 50,000 shares instead of the 150,000 reported. Subsequent to the examination the company responded that the number of shares is 150,000 and reissued the stock certificate. Therefore noting the number of shares was correctly reported.

The company participates in a securities lending program, administered by its trust company. Review of the company's annual statement indicated that the affected securities were not labeled with an "LS" on Schedule D, as required by the Purpose and Procedures Manual of the NAIC Securities and Valuation Office. It is recommended that the company designate loaned securities with an "LS" per the Purpose and Procedures Manual of the NAIC Securities and Valuation Office.

Affiliated Balances

Compcare performs a transaction with Blue Cross Blue Shield United Wisconsin at the end of each quarter to put Compcare in a payable position with BCBSUW. At December 31, 2000, this transaction consisted of a transfer of $4,000,000 from BCBSUW to Compcare on the last business day. On the first business day of the new year this transaction was reversed.

According to the Accounting Practices and Procedures Manual, SSAP No. 25, if a subsequent event or transaction reverse the effect of an earlier transaction prior to the issuance of the financial statements, the reversal should be considered in determining whether economic substance existed in the case of the original transaction. SSAP No. 25 further defines an economic transaction as “an arms-length transaction which results in the transfer of risks, and rewards of ownership and represents a consummated act thereof, i.e., ‘permanence’.” Although SSAP No. 25 was not in effect at the statement filing date, the criteria for determining economic substance was used in analyzing affiliated transactions as part of the financial examination process.

This transaction does not meet the requirements for permanence since it is reversed immediately. It is recommended that the company discontinue the practice of immediately reversing settlements.

The company nets all balances between Dentacare, Cobalt, Innovative Resource Group, Inc. (IRG), MRC, United Government Services (UGS), United Heartland, Inc. (UHRT), UHLIC, Unity Health Plan Insurance Corporation (Unity), UWIC, Proservices and Valley Health Services (VHS) as one large payable to Cobalt. The NAIC annual statement instructions for Health Maintenance Organizations allow HMOs to net affiliated balances however, as long as they are with the same company. At December 31, 2000, UGS, UHRT, Unity, Cobalt and VHP had receivable balances due to Compcare and should have been reported as receivables. The affiliated balances should have then been non-admitted pursuant to s. Ins. 9.10, Wis. Adm. Code. This leads to a decrease of surplus of $426,202. It is recommended that the company correctly report its receivable and payable balances for each company in the holding company group. Further, it is recommended that the company properly non-admit receivables pursuant to s. Ins. 9.10, Wis. Adm. Code.

Unclaimed Property

The company has procedures in place to monitor their escheatable items. On a monthly basis the company transfers checks that have been outstanding for a year to BCBSUW, where they are recorded as an escheat liability. Checks that have been recorded to the escheat liability are maintained in an excel spreadsheet until they have been outstanding for five years and are escheatable to the state. The examiner sampled a number of checks that had been outstanding for more than a year from the outstanding checklists to trace to the excel spreadsheet. The testing resulted in the following discrepancies:

- The company's bank account, which was formerly an account of FHP, had two outstanding checklists. The examiner had selected five checks from the first list that should have been transferred to the escheat account. Four of the five checks were not included in the excel spreadsheet. The second outstanding checklist associated with this account did not have dates, so the examiner was unable to determine if these checks were outstanding or had been cleared. The examiner selected thirty-two of the checks. Ten of the listed checks were traced to the cancelled check; there was no documentation regarding the other twenty-two checks. Company personnel noted that initial review of the FHP documentation indicates that there is a high likelihood these checks were voided. Further, the company notes that a project is under way to investigate the checks still outstanding in these accounts. Once it is established the check is outstanding it will be transferred to the escheat account.

- A sample of seven outstanding checks was also selected from the company's main cash account. The examiner could not trace these checks to the excel spreadsheet for the escheat account. The company responded that they had currently used a "two year" rule on this account. Therefore, some of the checks in the sample that were only outstanding for a year would not be on the spreadsheet. They note they will be using the one year rule on a going forward basis. The company is researching these checks in order to gather the appropriate backup to transfer the checks to the escheat liability.

It is recommended that the company follow its escheat procedures to ensure proper reporting to the state. Further, the company should report to this office within 60 days of adoption of this report that the checks from the FHP account that did not have dates were all properly investigated and deemed to be voided or escheatable.

Compulsory Surplus Requirement

As noted in the section of this report captioned "Financial Requirements," HMOs are required to maintain minimum compulsory surplus. The company's calculation as of December 31, 2000, is as follows:

Assets	$143,084,184	
Less:		
Special deposit	3,850,000	
Liabilities	94,149,159	
Security surplus of insurance subsidiaries	11,164,146	
Total		$33,920,879
Net premium earned	387,092,525	
Compulsory factor	3%	
Compulsory surplus		11,612,776
Compulsory Excess		$22,308,103

Subsequent Event

On the June 30, 2001 quarterly statement filed with OCI on August 15, 2001 the company's subsidiary, United Wisconsin Insurance Company (UWIC) indicated in footnote 10 that it had loaned Compcare's parent, Cobalt, Inc., $14,500,000 on March 26, 2001, and another $4,000,000 on June 29, 2001. UWIC included the $18.5 million as an asset "receivable from parent, subsidiaries, and affiliates". UWIC failed to advance report these distributions to OCI in violation of ss. 617.21, 617.22, 617.225 Wis. Stats., and s. Ins 40.04, Ins 40.18, and s. Ins 41.05 Wis. Adm. Code. The proceeds of these distributions were used by Cobalt to make capital contributions to Compcare, which is UWIC's immediate parent. Therefore, in Compcare's 2001 first and second quarter statutory financial statements the $18.5 million is double counted as both contributed capital and also in the carrying value of its subsidiary UWIC, which has the balance reported as a receivable from parent, subsidiaries, and affiliate. Cobalt later formalized the transaction by executing a note and pledged the shares of several subsidiaries to collateralize the loan. At December 31, 2001, UWIC nonadmitted the amount of the loans in excess of the value of the pledged collateral.

VIII. CONCLUSION

Compcare's 2000 annual statement reported assets of $143,084,184, liabilities of $94,149,159 and surplus of $48,935,025. Operations for 2000 produced a net loss of $10,231,312. The company lost over $24 million in 1999 putting Compcare in a negative compulsory surplus position.

Compcare was unable to provide evidence of its rate setting procedures. After two years of significant losses it is important the company performs reviews of their procedures to ensure they are adequately priced. Pricing problems were also an effect of the company's claim processing system conversion during 1998. The conversion led to management not having access to trend information that was necessary to make adequate pricing decision. This conversion also resulted in a significant backlog of unprocessed claims starting in 1998 and continuing through 1999.

The equity balances United Wisconsin Insurance Company, United Wisconsin Proservices, Meridian Resource Company, LLC and United Heartland Life Insurance Company were contributed to Compcare in 2000 in order to comply with compulsory surplus requirements. The equity balances of these companies at the time they were contributed to Compcare were $51,599,000.

Family Health Plan Cooperative was placed into liquidation on October 16, 2000. The Liquidation effected an Omnibus Agreement by and among Family Health Plan, Aurora, (UWSI) and Family Health Systems, Inc. Several provisions of the Omnibus Agreement were approved by the Court and all assets and certain liabilities were transferred to Aurora and/or Cobalt. The liquidation also resulted in Compcare assuming 100% of FHP's outstanding liabilities for claims incurred prior to the liquidation per a 100% quota share reinsurance agreement. Compcare received assets from FHP as consideration for assuming these liabilities.

The company complied with all previous recommendations. The examination resulted in thirteen recommendations.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 30 - Executive Compensation—It is recommended that the company complete the Report on Executive Compensation (Form OCI-040) in accordance with its instructions.

2. Page 30 - Executive Compensation—It is recommended that the company properly include all compensation amounts when completing the Report on Executive Compensation (Form OCI-040).

3. Page 30 - Corporate Records—It is recommended that the company maintain a glossary of corporate contracts, pursuant to s. 601.42 Wis. Stat.

4. Page 31 - Accounts and Records—It is recommended that the company maintain policy files in accordance with s. Ins. 6.80(4), Wis. Adm. Code in order to provide a clean audit trail.

5. Page 31 - Financial Reporting—It is recommended that the company complete the Notes to the Financial Statements in accordance with the NAIC Annual Statement Instructions.

6. Page 31 - Financial Reporting—It is recommended the company complete all schedules in the annual statement in accordance with the NAIC Annual Statement Instructions.

7. Page 32 - Business Plan—It is recommended that the company file a change in business plan within fifteen days upon adoption of this report pursuant to s. Ins. 9.06, Wis. Adm. Code. Further, it is recommended that the company comply with change in business plan filings in the future.

8. Page 33 - Underwriting— It is recommended that the company establish and maintain formal written procedures for calculating its premium rates to ensure their products are adequately priced.

9. Page 33 - Investments—It is recommended that the company designate loaned securities with an "LS" per the Purpose and Procedures Manual of the NAIC Securities and Valuation Office.

10. Page 34 - Affiliated Balances—It is recommended that the company discontinue the practice of immediately reversing settlements.

11. Page 34 - Affiliated Balances—It is recommended that the company correctly report its receivable and payable balances for each company in the holding company group. Further, it is recommended that the company properly non-admit receivables pursuant to s. Ins. 9.10, Wis. Adm. Code.

12. Page 35 - Unclaimed Property—It is recommended that the company follow its escheat procedures to ensure proper reporting to the state. Further, the company should report to this office within 60 days of adoption of this report that the checks from the FHP account that did not have dates were all properly investigated and deemed to be voided or escheatable.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	**Title**
Lori Cretney	Insurance Financial Examiner
Sarah Haeft	Insurance Financial Examiner

Respectfully submitted,

Danielle C. Rogacki
Examiner-in-Charge